



October 2006 Finance Report

Information Technology Investment Board Finance and Audit Committee October 2006

This Finance Report covers the following topics:

- Fiscal Year 2006 Financial Results
- IT Financial Benefits Update

Fiscal Year 2006 Financial Results (thru June 30, 2006)

June 2006 YTD Financial Results All Funds

	<i>FY 2006 Budget</i>	<i>30-Jun-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>All Funds</u>			
Revenues, including transfers in	\$296,050,223	\$293,415,446	99%
Expenses, including transfers out	<u>294,043,960</u>	<u>291,386,884</u>	99%
Net Change	2,248,388	2,028,562	
Retained Earnings, July 1	54,110,505	54,110,505	
Ending Retained Earnings	\$ 56,116,768	\$ 56,062,031	

Overall, financial activity in all funds in fiscal year 2006 was in line with expectations. Within the major sources of funding, the most significant differences were that Internal Service Fund revenues and expenses fell short of projections, while enterprise fund revenues and expenses exceeded projections. Neither outcome was unexpected as new information and experience became available during the fiscal year. Additional revenues and expenses in Enterprise Funds reflected both increases in cell phone usage (the source of funding for Wireless Emergency 911 funds), and growth in public safety communications services.

For the fiscal year, VITA prompt payment statistics indicate that 97.7 % of VITA's vendor payments were made on time.

**June 2006 YTD Financial Results
Internal Services Fund**

<u>ISF</u>	<i>FY 2006 Budget</i>	<i>30-Jun-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$248,968,827	235,142,983	94%
Expenses, including transfers out	<u>246,567,038</u>	<u>238,742,458</u>	97%
Net Change	2,401,789	\$ (3,599,475)	
Retained Earnings, July 1	32,260,081	32,260,081	
Ending Retained Earnings	\$ 34,661,870	\$ 28,660,606	

The Internal Service Fund program represent the core of VITA's business and accounts for the majority of revenues and expenses, including telecommunications, computer services, and direct billed/Memorandum of Agreement services.

Direct billed/Memorandum of Agreement services activity was the highest revenue producer for VITA in FY 06, with about \$112.3 million in receipts. But legacy computer services and telecommunications services also remained strong, with year to date revenues of about \$47.1 million and \$70.1 million, respectively. Although expenses for the year on the income statement exceeded actual revenues, this is the result of VITA's accrual based accounting. In summary, a \$5.4 million contract milestone payment to Northrop-Grumman, billed and booked in June, was actually paid in July. Thus, on June 30 from a cash perspective VITA's expenses for the year were actually slightly under revenues collected and on-hand.

ISF Cash with Treasurer of Virginia

30-Jun-05	\$ 17,007,934
30-June-06	\$ 20,037,685

Since inception VITA has historically capitalized agency expenditures, paying personal service and other costs and then seeking reimbursement from state agencies. A more complete discussion of cash-flow is included in the separate report on FY 2007 Financial Results.

**June 2006 YTD Financial Results
Enterprise Funds**

	<i>FY 2006 Budget</i>	<i>30-Jun-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Enterprise</u>			
Revenues, including transfers in	\$39,005,696	47,320,042	121%
Expenses, including transfers out	<u>39,005,696</u>	44,351,843	114%
Net Change	0	2,968,199	
Retained Earnings, July 1	20,442,577	20,442,577	
Ending Retained Earnings	\$ 20,442,577	\$ 23,410,776	

VITA's Enterprise Funds are comprised of the portal access program (Virginia Interactive) and Wireless E-911 revenues. Virginia Interactive revenues equated to about \$3.7 million for the year, and E-911 to about \$43.6 million.

E-911 revenues ran ahead of budget by about 10% for the fiscal year. The Virginia Wireless E-911 Services Board promotes and assists in the development, deployment, and maintenance of enhanced wireless emergency telecommunications services and technologies. A technical increase to E-911 appropriations was approved in the 2006 Special Session, and which brought actual expenditures and budget into line for the year.

**June 2006 YTD Financial Results
General Fund**

	<i>FY 2006 Budget</i>	<i>30-Jun-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>GF</u>			
Revenues, including transfers in	\$3,245,700	\$ 3,315,235	102%
Expenses, including transfers out	<u>\$ 3,245,700</u>	<u>\$ 3,238,199</u>	100%
Net Change	\$0	77,036	
Retained Earnings, July 1	0	0	
Ending Retained Earnings	\$0	\$0	

The General Fund appropriation for operations totals \$3.1 million, and an additional one time discretionary grant for development of a generic dashboard product for use by state agencies and institutions in their management of diversity programs and other purposes. A \$1.6 million adjustment, included in the totals above, was approved in the legislature's amendments to the 2004-2006 Budget Bill this spring. Without that adjustment, agencies would have been assessed a "savings" adjustment (budget reduction) of an equal amount, based on estimates of the impact of procurement and telecommunications rate decreases as a result of VITA rate and contract actions. The general fund account balance at year end represents, in part, unexpended funds needed to complete the dashboard product, and a request will be made for their re-appropriation.

**June 2006 YTD Financial Results
Special Revenue Funds**

	<i>FY 2006 Budget</i>	<i>30-Jun-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Special</u>			
Revenues, including transfers in	\$3,880,000	5,952,334	153%
Expenses, including transfers out	<u>4,033,401</u>	<u>3,679,717</u>	91%
Net Change	\$ (153,401)	\$ 2,272,617	
Retained Earnings, July 1	\$ 1,165,722	\$ 1,165,722	
Ending Retained Earnings	\$ 1,012,321	\$ 3,438,339	

Special Revenue Funds are comprised of funding to support acquisition services (IFA), public-private partnerships (PPEA), Virginia Geographic Information System (VGIN) services, and the Virginia Technology Infrastructure fund. For the year fund balances totaled \$2.6 million in IFA, about \$0.4 million for VGIN, and \$0.4 million in miscellaneous other programs. Revenues for the IFA derive from contractual payments made by the state's information technology vendors, based on the level of purchases of their products. In FY 2006 IFA revenues ran well ahead of estimates at \$5.8 million for the year, in part because of improvements in recording and collection efforts. This account funds acquisition and general government activities, including support to the Governor's Office that would not normally be included as overhead billed to state agencies and other customers.

**June 2006 YTD Financial Results
Federal Funds**

<u>Federal</u>	<i>FY 2006 Budget</i>	<i>30-Jun-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$ 950,000	\$ 1,684,852	177%
Expenses, including transfers out	<u>1,192,125</u>	<u>1,374,667</u>	115%
Net Change	\$ (242,125)	310,185	
Retained Earnings, July 1	\$ 242,125	\$ 242,125	
Ending Retained Earnings	\$0	\$ 552,310	

In FY 2006 VITA received \$1.7 million in Homeland Security Grant funds, and expended \$1.4 million. The year-end balance carried-forward of about \$0.6 million is obligated for the completion of the two federally supported projects involved.

IT Financial Benefits Update

In addition to their other benefits, infrastructure IT initiatives are projected to produce significant financial benefits (cost savings and cost avoidances) to both the Commonwealth generally and to specific customer State agencies and localities. A summary is shown in the following Table.

IT Financial Benefits/Savings (\$000)

	FY 2004	FY 2005	FY 2006 (Full Year)	FY 2007 (Annual Estimate)
Cost Savings	\$15,858	\$29,544	\$26,828	\$21,600
Cost Avoidance	\$875	\$13,455	\$17,395	\$16,500
Total	\$16,733	\$42,999	\$43,395	\$39,100

These savings represent contract rate reductions and discounts. The primary savings categories are telecommunications (Verizon and COVANET) and Virginia Partners in Procurement (VaPP). The VaPP savings reported here are from IT purchases (hardware, software, etc.).

The FY 2007 savings estimate is based on \$15.1 Million for VaPP savings that will be mostly applicable to out-of-scope agencies and local governments, \$3.5 Million in COVANET and other telecommunications savings, and \$3.0 Million in Verizon contract savings. Since Northrop Grumman will be making most of the technology purchases for in-scope agencies, VITA expects

that the VaPP savings will be reduced. After FY 2007 the COVANET and other telecommunications saving will be eliminated, when the Data Network is converted to Northrop Grumman's responsibility and voice-over-IP (VoIP) phone services are implemented.

Over time, financial benefits (both cost savings and cost avoidances) are expected to become a smaller part of the overall VITA benefits story. This will be true because opportunities for savings will decline as statewide contracts are put into place, equipment consolidation and modernization produce diminishing returns, and market prices continue to rise. Additionally, the partnership with Northrop Grumman will subsume many savings areas – in effect, the financial benefits will be “built-in” to the service rates. VITA’s greatest benefit to customers will be in the form of the value added to processes and services, rather than savings.